



2007 Legislative Session
House State Administration
March 19, 2007
Melanie A. Symons, Legal Counsel
Montana Public Employee Retirement Administration

**HB814 – Revise Postretirement Benefits and Increases in Statewide
Police Retirement System
Sponsored by Robin Hamilton**

The Public Employees' Retirement Board (PERB) respectfully opposes this legislation.

- ❖ Due to the unfunded status of some retirement systems, several pieces of pension legislation have been proposed this session to **decrease** retirement benefits for employees hired after July 1, 2007
- ❖ This legislation dramatically **increases** both the underlying retirement benefit and the Guaranteed Annual Benefit Adjustment (GABA) paid to retirees of the Municipal Police officers' Retirement System (MPORS)
- ❖ This legislation provides an immediate permanent \$500 increase to MPORS retirees who retired prior to January 1, 1991
 - ✓ Ad hoc increases are not pre-funded and place stress on the retirement systems.
 - ✓ Ad hoc increases are the most expensive way of funding benefits. They immediately create unfunded liabilities because there is no method in place to collect the contributions to pay for the increases.
 - ✓ The cost of this ad hoc increase is astronomical - \$120 million, \$119 more than the bill proposes to add to the MPORS trust fund.
- ❖ This legislation also increases the GABA from the current rate of 3% to 5% for all MPORS members.
- ❖ It does not address the other six defined benefit retirement plans.

- ❖ Increasing the Guaranteed Annual Benefit Adjustment (GABA) for one system will result in attempted leap-frogging by the other systems. Over the next several legislative sessions all systems will be requesting similar or better improvements to their GABA.
- ❖ The current 3% GABA is not out of line. Over the last 20, 25 and 30-year period, the CPI average was 3.02%, 3.55%, 4.42%, respectively.

| Consumer Price Index | |
|-----------------------------|------|
| 20-year (1996-2005) | 3.02 |
| 25-year (1981-2005) | 3.52 |
| 30-year (1976-2005) | 4.42 |

- ❖ We urge you to consider the issues this bill will create. The PERB recommends a "Do Not Pass".